APOLLO

10 Questions for Private Credit

September 2025

Alex Wright
Global Wealth Strategist

With the private credit universe expanding, it's more important than ever for investors to do their homework. Here, we look at 10 important questions to ask private credit managers.

First, what vintage of loans do you have in your portfolio?

Before the Fed began raising rates, the leverage being put on companies was materially higher than with loans made post 2021. As base rates increased significantly, these older-vintage loans had their interest coverage ratios fall – increasing the possibility of a default or an amended use of paid-in-kind interest. We have seen material credit metric dispersion between old and new vintage funds as a result.

How much of the income coming from your private credit investment is paid-in-kind?

- We have been emphasizing the importance of understanding payment-in-kind interest as rates remain higher for longer. For those less familiar, payment-in-kind interest is added onto the principal, instead of a cash coupon being paid to the lender. For example, if a $10,000 loan has 10% PIK interest, the new principal would be $11,000 and the 10% interest would apply to the new balance, with everything repaid at maturity.
- This metric is commonly found within business development companies, known as BDCs, an increasingly popular way to access private credit.
- Specifically, you could ask about a BDC's PIK interest income as a percentage of net investment income. Why is this important? For a few reasons. PIK could show a deterioration within the credit quality of a portfolio and could foreshadow credit problems that are building. More importantly, PIK is not paid in cash to the investor – it is added to the principal of a loan that the company must repay at maturity. We believe cash income is preferable given private credit is an income-oriented strategy.

What percentage of PIK is done at origination versus an amendment to allow relief?

- Not all PIK is created equal. As we discussed in our PIK video, PIK can take different forms and carry different risks. PIK at origination occurs when the loan is created, allowing the borrower to pay PIK in the first year, for example. PIK at origination is done with thorough underwriting due diligence, in which the lender understands the use of cash savings.
- PIK via an amendment is different and could hint at more stress within borrowers or portfolios. Instead of a default, the lender and borrowers could allow for the loan to pay interest in kind, masquerading the true credit quality of the borrower and kicking the can down the road before a default.

What is the total debt/EBITDA over past four quarters?

- Debt to EBITDA is an important credit metric to watch within a BDC. This metric is more commonly called leverage. If you see increasing debt to EBITDA, it could suggest deteriorating cashflows of the underlying companies, yet another way to monitor the underlying health of the portfolio.

What is the leverage on the BDC vehicle?

- BDCs are allowed to run leverage up to 2x.
- Leverage profiles vary among BDCs. In public BDCs, which are listed on national exchanges and tend to trade like equities, it's not uncommon to see leverage above 1.0x or higher. That's to say, a BDC is borrowing 1 dollar for every dollar of equity.
- For non-traded BDCs, the figures have been below 1.0x and can be below 0.5x. This is important to watch as leverage can amplify returns but also magnify losses during times of stress.

What is EBITDA/interest expense over the past four quarters?

- We think of this as if one added up all the EBITDA from the companies in the portfolio and then divided that figure by all the interest expense the companies pay. A higher number is better here as it indicates more strength in the credit fundamentals of the portfolio.
- If a company were to fall on hard times or the economy goes into a recession, having stronger interest coverage provides a bit more comfort in knowing EBITDA can decrease but the borrower can still service its debt. Any trend lower in these numbers over the last year could indicate companies are running into problems.

What percentage of the portfolio has an interest coverage ratio of less than 1:1?

- Interest coverage is a simple enough concept to understand: how many times over can a company cover its interest payments? In times when interest rates are low, borrowers are easily able to service their interest payments as the cost of capital isn't burdensome. When the Federal Reserve began raising rates in 2022, the cost of capital spiked higher for borrowers as base rates rose.
- As rates have stayed higher for longer, we've seen companies with higher leverage facing more challenges as it relates to interest coverage ratios.

What is your loan-to-value?

- A key term for investors in private credit is LTV, or loan-to-value. In other words, how much cushion do you have before you take losses on your investment. Take the example of a million-dollar home, which could require a 30% downpayment, and the remainder financed by a $700,000 mortgage. That would equate to 70% LTV.
- LTV is important for investors to watch as it ties in closely with the vintage of the loans. BDCs were making loans in 2018-2021 that were struck at high LTVs, in the range of 50-70%. Those levels were manageable when base rates were zero, but we've seen older vintage loans come under pressure as interest rates stay higher for longer.
- In today's market, borrowers that took out high LTV loans may have to refinance at lower LTVs with higher rates, presenting a meaningful refinancing challenge.

What percentage of the portfolio is subject to direct impact from tariffs?

- This is another question to ask when trying to understand portfolio composition. Sectors like automotives, retailers and industrials could face headwinds due to tariffs and the nature of their supply chains.
- Tariffs could distort the earnings of borrowers in these sectors and could negatively impact their credit metrics like interest coverage and leverage. Tariffs could result in more liquidity being diverted into working capital (i.e. increased inventory levels). Service-oriented sectors, like media, telecom and software could be less sensitive to tariffs.

Finally, and perhaps most importantly, what is the alignment of the manager with the investor?

- The alignment of the manager and investor experience is important to consider when evaluating an investment. If the manager is invested alongside the investor, there is a shared alignment of interests and outcomes. From a manager's perspective, investing their own balance sheet capital enforces sound credit underwriting and finding excess return per unit of risk.

Important Disclosure Information

This presentation is for educational and discussion purposes only and should not be treated as research. This presentation may not be distributed, transmitted or otherwise communicated to others, in whole or in part, without the express written consent of Apollo Global Management, Inc. (together with its subsidiaries, "Apollo"). The views and opinions expressed in this presentation are the views and opinions of the authors of the content. They do not necessarily reflect the views and opinions of Apollo and are subject to change at any time without notice. Further, Apollo and its affiliates may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this presentation. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such.

This presentation does not constitute an offer of any service or product of Apollo. It is not an invitation by or on behalf of Apollo to any person to buy or sell any security or to adopt any investment strategy, and shall not form the basis of, nor may it accompany nor form part of, any right or contract to buy or sell any security or to adopt any investment strategy. Nothing herein should be taken as investment advice or a recommendation to enter into any transaction. Hyperlinks to third-party websites in this presentation are provided for reader convenience only. Unless otherwise noted, information included herein is presented as of the dates indicated. This is not complete and the information contained herein may change at any time without notice. Apollo does not have any responsibility to update the presentation to account for such changes.

Apollo has not made any representation or warranty, expressed or implied, with respect to fairness, correctness, accuracy, reasonableness, or completeness of any of the information contained herein (including but not limited to information obtained from third parties unrelated to Apollo), and expressly disclaims any responsibility or liability therefore.

The information contained herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. Investors should make an independent investigation of the information contained herein, including consulting their tax, legal, accounting or other advisors about such information. Apollo does not act for you and is not responsible for providing you with the protections afforded to its clients.

Certain information contained herein may be "forward looking" in nature. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking information. As such, undue reliance should not be placed on such information. Forward-looking statements may be identified by the use of terminology including, but not limited to, "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology.

Past performance is not necessarily indicative of future results.

Additional information may be available upon request.

To learn more, visit ApolloAcademy.com.